

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Village of Lexington Building Authority	County Sanilac
Audit Date 6/30/05	Opinion Date 8/9/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

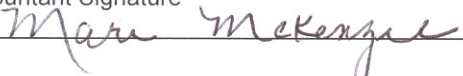
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 3149 Main Street Suite #4; P.O. Box 218	City Marlette	State MI	ZIP 48453
Accountant Signature 			

**VILLAGE OF LEXINGTON BUILDING AUTHORITY**

**Lexington, Michigan**

**Annual Financial Statements**

**and**

**Auditors' Report**

**June 30, 2005**

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**Village of Lexington Building Authority**  
**Lexington, Michigan**  
**Members of Building Authority Board**  
**June 30, 2005**

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BUILDING AUTHORITY BOARD

VIRGINIA McNABB

KIRK SHOULTS

SECRETARY

TREASURER



3149 Main Street, Suite Plaza #4  
Marlette, MI 48453  
Phone (989) 635-7518  
Fax (989) 635-3226

## Independent Auditors' Report

Members of Village of Lexington Building Authority  
Lexington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Village of Lexington Building Authority as of and for the year ended June 30, 2005, which collectively comprise the Village of Lexington Building Authority basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lexington Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Lexington Building Authority at June 30, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Building Authority has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements

*Yeo & Yeo, P.C.*

Marlette, Michigan  
August 9, 2005

**Village of Lexington Building Authority**  
**Statement of Net Assets**  
**June 30, 2005**

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Assets	
Cash	\$ 59,648
Net investment in direct financing lease	
Expected to be received within one year	8,000
Expected to be received after one year	<u>164,000</u>
Total assets	<u>\$ 231,648</u>
Liabilities and Fund Balance	
Liabilities	
Checks written against future deposits	\$ 348
General obligation bonds payable	
Due within one year	8,000
Due after one year	<u>164,000</u>
Total liabilities	<u>172,348</u>
Net assets	
Unrestricted	<u>59,300</u>
Total liabilities and net assets	<u>\$ 231,648</u>

See accompanying notes to financial statement

**Village of Lexington Building Authority**  
**Statement of Activities**  
**Year Ended June 30, 2005**

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Expenses	
Operations	\$ 63,809
Interest	<u>9,000</u>
Total program expenses	<u>72,809</u>
Program revenues	
Charges for services	<u>45,351</u>
Net program expense	(27,458)
General revenues	
Investment earnings	<u>524</u>
Decrease in net assets	(26,934)
Net assets-beginning of the year	<u>86,234</u>
Net assets-end of the year	<u><u>\$ 59,300</u></u>

See accompanying notes to financial statements

**Village of Lexington Building Authority**  
**Statement of Net Assets and Governmental Funds Balance Sheet**  
**June 30, 2005**

	General Fund	Debt Service Fund	Total	(Note 6) Adjustments	Statement of Net Assets
Assets					
Cash	\$ 59,648	\$ -	\$ 59,648	\$ -	\$ 59,648
Net investment in direct financing lease					
Expected to be received within one year	8,000	-	8,000	-	8,000
Expected to be received after one year	<u>164,000</u>	<u>-</u>	<u>164,000</u>	<u>-</u>	<u>164,000</u>
Total assets	<u>\$ 231,648</u>	<u>\$ -</u>	<u>\$ 231,648</u>	<u>\$ -</u>	<u>\$ 231,648</u>
Liabilities and Fund Balance					
Liabilities					
Checks written against future deposits	\$ -	\$ 348	\$ 348	\$ -	\$ 348
General obligation bonds payable					
Due within one year	-	-	-	8,000	8,000
Due after one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,000</u>	<u>164,000</u>
Total liabilities	<u>-</u>	<u>348</u>	<u>348</u>	<u>172,000</u>	<u>172,348</u>
Fund balances/Net assets					
Reserved for financing lease	172,000	-	172,000	(172,000)	-
Reserved for debt service	-	(348)	(348)	348	-
Reserved for maintenance of building	40,730	-	40,730	(40,730)	-
Unreserved	<u>18,918</u>	<u>-</u>	<u>18,918</u>	<u>(18,918)</u>	<u>-</u>
Total liabilities and fund balances (deficits)	<u>231,648</u>	<u>(348)</u>	<u>231,300</u>	<u>(231,300)</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 231,648</u>	<u>\$ -</u>	<u>\$ 231,648</u>	<u>(59,300)</u>	<u>172,348</u>
Net assets					
Unrestricted				<u>\$ 59,300</u>	<u>\$ 59,300</u>

See accompanying notes to financial statements



**Village of Lexington Building Authority**  
**Statement of Activities and Governmental Fund**  
**Revenues, Expenditures, and Changes in Fund Balances**  
**Year Ended June 30, 2005**

	<u>General</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>(Note 7) Adjustments</u>	<u>Statement of Activities</u>
Revenues					
Interest earned - investments	\$ 524	\$ -	\$ 524	\$ -	\$ 524
Reimbursements	<u>29,174</u>	<u>16,177</u>	<u>45,351</u>	<u>-</u>	<u>45,351</u>
Total revenues	<u>29,698</u>	<u>16,177</u>	<u>45,875</u>	<u>-</u>	<u>45,875</u>
Expenditures/expenses					
Operating expenses	63,809	-	63,809	-	63,809
Debt service					
Principal retirement	-	8,000	8,000	(8,000)	-
Interest	<u>-</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>	<u>9,000</u>
Total expenditures	<u>63,809</u>	<u>17,000</u>	<u>80,809</u>	<u>(8,000)</u>	<u>72,809</u>
Excess (deficiency) of revenues over expenditures	(34,111)	(823)	(34,934)	8,000	(26,934)
Fund balances (deficits)/net assets - beginning of the year	<u>265,759</u>	<u>475</u>	<u>266,234</u>	<u>(180,000)</u>	<u>86,234</u>
Fund balances (deficits)/net assets - end of the year	<u>\$ 231,648</u>	<u>\$ (348)</u>	<u>\$ 231,300</u>	<u>\$ (172,000)</u>	<u>\$ 59,300</u>

See accompanying notes to financial statements

**Village of Lexington Building Authority**  
**Notes to Financial Statements**  
**June 30, 2005**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Lexington Building Authority was created during 1979 to facilitate the financing, construction and operation of a municipal building in the Village for the use of both the Village and Township of Lexington.

The accounting policies of the Village of Lexington Building Authority conform to accounting principles to generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Building Authority is the primary government, which has oversight responsibility and control over all activities. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Building Authority and does not include any other component within its basic financial statements.

**Government-Wide Statements**

The statement of net assets and the statement of activities display information about the Building Authority. These statements include the financial activities of the overall government. All of the Building Authority's activities are classified as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues, reimbursements from the Village of Lexington to and Township of Lexington. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements**

The fund financial statements provide information about the Building Authority's funds. The Building Authority only has governmental funds. The emphasis of fund financial statements is on major governmental funds with all remaining governmental funds aggregated and reported as nonmajor funds.

The Building Authority reports the General Fund as a major governmental fund. It is the general operating fund of the Building Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

**Measurement Focus, Basis of Accounting**

**Government-wide Financial Statements.** The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**Governmental Fund Financial Statements.** All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when the related fund liability is incurred.

**Assets, Liabilities and Equity**

**Deposits and Investments** - Cash includes cash on hand, demand deposits and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties

**Village of Lexington Building Authority**  
**Notes to Financial Statements**  
**June 30, 2005**

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for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund. All annual appropriations lapse at year end.

The Building Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Building Authority's Treasurer submits to the Board a proposed budget by June 30<sup>th</sup> of each year.
2. The budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgeted amounts are as amended.

**Excess of Expenditures over Appropriations**

The Building Authority had expenditures in excess of budget as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over</u>
General Fund			
Operating expenses	<u>\$ 51,010</u>	<u>\$ 63,809</u>	<u>\$ 12,799</u>

**NOTE 3 - DEPOSITS**

The deposits of the Building Authority were reflected in the accounts of financial institutions at \$59,300, all of which is covered by federal depository insurance. Deposits are recorded in the financial statements as cash and checks written against future deposits for a net amount of \$59,300.

**NOTE 4 - NET INVESTMENT IN DIRECT FINANCING LEASES**

The lease with the Village of Lexington Building Authority entered into concerning the Lexington Municipal Building qualifies as a direct financing lease. Under a direct financing lease fixed assets are recorded on the books of the lessee and a corresponding long-term liability is reflected in their accounting records.

The lease receivable is reduced annually by lease payments received.

Total minimum lease payments receivable	\$ 248,400
Less: unearned finance charges	<u>(76,400)</u>
Net lease receivable	<u>\$ 172,000</u>

General obligation bonds in the amount of \$285,000 with interest at five percent (5%) per annum were issued under the provision of Act No. 31, Public Acts of Michigan, 1948 as amended. Financing of the Building Authority, to include debt retirement and operational expenses will consist of the Village of Lexington contributing eighty percent (80%) and the Township of Lexington twenty percent (20%). Upon the retirement of the construction bonds which financed the facility, or at the time title is transferred to the Village, the Village will convey a tenancy in common to the Township reflecting a twenty percent (20%) interest to the Township.

**Village of Lexington Building Authority**  
**Notes to Financial Statements**  
**June 30, 2005**

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**NOTE 5 - LONG-TERM DEBT**

The following is a summary of the 1980 general obligation bond transactions of the Building Authority for the year ended June 30, 2005.

Bonds payable at July 1, 2004	\$ 180,000
Bonds retired	<u>(8,000)</u>
Bonds payable at June 30, 2005	<u>\$ 172,000</u>

The annual requirements to pay principal and interest at five percent (5%) on the obligations outstanding at June 30, 2005 are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	8,000	8,600	16,600
2007	8,000	8,200	16,200
2008	9,000	7,800	16,800
2009	9,000	7,350	16,350
2010	10,000	6,900	16,900
2011-2015	57,000	26,550	83,550
2016-2020	<u>71,000</u>	<u>11,000</u>	<u>82,000</u>
	<u>\$ 172,000</u>	<u>\$ 76,400</u>	<u>\$ 248,400</u>

The Building Authority has the option to redeem bonds maturing in the years 2005 to 2020, inclusive, in the manner, at the times and at the prices specified on the face of the bonds.

There are a number of limitations and restrictions contained in the various bond indentures. The Building Authority is in compliance with all significant limitations and restrictions.

**NOTE 6 – RECONCILIATION TO THE STATEMENT OF NET ASSETS**

Long-term liabilities applicable to the Building Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term are reported in the statement of net assets. The balance of general obligations bonds payable at June 30, 2005 was \$172,000.

**NOTE 7 – RECONCILIATION TO THE STATEMENT OF ACTIVITIES**

Repayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current resources have been used. For the Building Authority as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result as an expenditure in the statement of activities. Repayments of long-term debt for the year totaled \$8,000.

**Village of Lexington Building Authority**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2005**

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Interest earned - investments	\$ 530	\$ 530	\$ 524	\$ (6)
Reimbursements	<u>35,010</u>	<u>37,062</u>	<u>29,174</u>	<u>(7,888)</u>
Total revenues	<u>35,540</u>	<u>37,592</u>	<u>29,698</u>	<u>(7,894)</u>
Expenditures				
Operating expenses	<u>35,010</u>	<u>51,010</u>	<u>63,809</u>	<u>12,799</u>
Excess (deficiency) of revenues over expenditures	530	(13,418)	(34,111)	(20,693)
Fund balance, July 1, 2004	<u>265,759</u>	<u>265,759</u>	<u>265,759</u>	<u>-</u>
Fund balance, June 30, 2005	<u>\$ 266,289</u>	<u>\$ 252,341</u>	<u>\$ 231,648</u>	<u>\$ (20,693)</u>

**Village of Lexington Building Authority**  
**Other Supplemental Information**  
**General Fund**  
**Schedule of Operating Expenses Compared to Budget**  
**Year Ended June 30, 2005**

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	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Building repairs and maintenance	\$ 4,000	\$ 4,567	\$ 567
Audit and legal expense	1,400	1,610	210
Insurance	1,200	1,009	(191)
Utilities	12,400	13,344	944
Miscellaneous	200	57	(143)
Janitorial salary	7,345	7,345	-
Operating and janitorial supplies	1,200	1,172	(28)
Security system monitoring	600	487	(113)
Capital outlay	21,000	32,553	11,553
Clerical expense	<u>1,665</u>	<u>1,665</u>	<u>-</u>
	<u>\$ 51,010</u>	<u>\$ 63,809</u>	<u>\$ 12,799</u>



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Village of Lexington Building Authority  
Lexington, Michigan

We have completed our audit of the Village of Lexington Building Authority for the year ended June 30, 2005. Our audit dated August 9, 2005 contained within was made in accordance with auditing standards generally accepted in the United States of America and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The system of internal control of the Village of Lexington Building Authority is adequate.

The accounting records are adequate.

The physical control over assets is adequate.

The financial records included in the audit are in agreement with accounting records of the Authority. No material or unusual adjustments were required.

All cash in banks at June 30, 2005 is deposited in institutions insured by the federal government.

The following insurance is in force at June 30, 2005:

Type of Coverage	Policy Number	Amount of Coverage	Policy Expiration Date
Property	MML001043319	\$ 13,054,634	3/26/2006
Liability	MML001043319	2,000,000	3/26/2006

No unsatisfactory conditions came to our attention during the year under audit.

There was no amount due from the Village of Lexington as of June 30, 2005.

There was no amount due from the Township of Lexington as of June 30, 2005.

The Village of Lexington Building Authority is exempt from federal income tax.

We would like to thank your personnel for their assistance during the audit. Should you have any questions regarding the above or if we can be of further assistance to you, please contact our office at your convenience.

*Yeo & Yeo, P.C.*

Marlette, Michigan  
August 9, 2005





3149 Main Street, Suite Plaza #4  
Marlette, MI 48453  
Phone (989) 635-7518  
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August 9, 2005

To the Board of Directors  
Village of Lexington Building Authority  
Lexington, Michigan

In planning and performing our audit of the financial statements of the Village of Lexington Building Authority for the year ended June 30, 2005, we considered the Association's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated August 9, 2005, on the financial statements of the Village of Lexington Building Authority.

#### **Chart of Accounts**

Your chart of accounts numbering system is not in compliance with the chart listed in the Uniform Accounting Procedures Manual. We recommend you update your chart of accounts to add the proper account number to each account name.

#### **Cash**

We recommend that you request a quarterly statement from your bank for your savings account. This account should be reconciled on a regular basis and reviewed by the board members in the same manner as your checking account.

We also recommend that you contact the bank and verify that your signature cards are up to date showing the current board members authorized on the checking and savings accounts.

We will discuss the status of these comments during our next audit engagement. We have already discussed many of the comments and suggestions with the Treasurer, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Building Authority for their support and assistance during our audit. It is with pride that we count the Village of Lexington Building Authority as one of our clients.

This report is intended solely for the information and use of the Board of Directors, management and others within the Association and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*  
Marlette, Michigan  
August 9, 2005

